

A STUDY ON THE EFFECT OF GST RATE REVISIONS ON INDIA'S ECONOMIC GROWTH AND CONSUMER SPENDING PATTERNS

Salma Begum

Associate Professor, Faculty of Management Studies, CMS Business School, JAIN (Deemed-to-be University), Bengaluru, Karnataka, India

N Roshan Choudhury

MBA Student, Faculty of Management Studies, CMS Business School, JAIN (Deemed-to-be University), Bengaluru, Karnataka, India

ABSTRACT

The GST system was another significant structural change in the indirect taxation framework in India and substituted various cascading taxes with one taxation system. GST after the rate has been revised several times since its introduction in 2017, with a deliberate effort to form an equilibrium based on revenue generation, inflation control, and radiation of consumer behavior. This empirical research paper will discuss the effects of the changes in GST rates on consumer spending in India, and in the context of the response of individual income and types of products to the changes. The rich data was gathered by use of a structured questionnaire with 157 consumers based on various income levels, and government reports and published literature were the sources of the secondary data. Data analysis was done by using statistical tests such as Chi-square tests, One-Way ANOVA, and Pearson correlation analysis. The results indicate that consumer expenditure behavior is greatly affected by changes in the GST rates, with consumers responding more strongly to an upward increase in the GST rate than to a reduction in the rate. Income level is also a significant factor in the perceived effect, whereby high-income groups reported greater effects. There is a high positive correlation between consumer awareness of GST revisions and behavioral response ($r = 0.623$, $p < 0.001$). The paper discusses the significance of constant taxation policies as well as increased consumer education to support the unchanging consumption aspects and the growth of the economy.

Keywords GST rate revisions, consumer spending patterns, tax policy, income groups, consumer behaviours, India

1. INTRODUCTION

The Goods and Services Tax (GST) is one of the changes in the tax system that has occurred in the history of India. In force on July 1, 2017, it substituted a complex assortment of several central and state taxes, such as Excise Duty, Service Tax, VAT, and Octroi, with a single system of indirect taxes in which the concept of 'One Nation, One Tax, One Market' is upheld. The main purpose behind this reform included doing away with the cascading effect of taxes, expanding the tax base, enhancing compliance, and creating a smooth national market for goods and services.

A constitutional body known as the GST council, which included the central and state representatives, implemented a four-tier rate system - 5, 12, 18, and 28 percent, with the essential goods either being exempted or charged lower taxes, whereas the luxurious and demerit items were charged higher. Nevertheless, the GST regime has not stayed the same. The Council has, since its inception, periodically updated tax rates depending on revenue trends, industry responses, pressure on inflation, and administrative experiences. There have

been several rate changes, and rate cuts were made on more than 200 items. Rationalization of services and simplification of compliance procedures were also proposed. Such dynamic revisions indicate a dynamic tax system.

Each change in the GST rates implies much. Tax cuts can be used to kick-start the demand as the economy can increase production, as well as the job and the economy. On the other hand, the rate increase can restrain consumption, especially of discretionary goods, and it will boost the government's income. These impacts are vital to policymakers, businesses, and consumers. As a policymaker, it offers a basis for future rate decisions. In the case of businesses, it helps in pricing and inventory planning.

To consumers, it influences expenditure and purchasing power.

Although these rate revisions are important, the impact of such measures in the short-term of their implementation (2017-2019) has been studied the most in the academic literature. A survey has been conducted on the perception of the consumer, the impact of the sector, revenue impact, and macroeconomic impacts. This paper seeks to address this gap by exploring the impact of changes in the GST rate since the year 2017 in India to the year 2024 on consumer spending patterns in India and also how the various income groups and product categories react to the changes.

2. LITERATURE REVIEW

In a study conducted by Kanaujiya and Singh (2024), consumer spending habits were studied in relation to GST implementation in the different categories of products that consumers spend on, ranging from essential goods, luxury goods, and services. Their research revealed that GST led to an increase in inflation in the country, and they raised the spending power of consumers in a positive feedback mechanism. The study also pointed out that the GST changes affected the lower-income consumers more because of their low purchasing power.

Ramkumar (2018) analysed the consumer perceptions on GST implementation applied to economic methodology in terms of disposable income and spending capacity. The research found that the consumers were contented by the four-tier GST regime, but they did not realize any significant rise in spending capacity in the immediate run after the GST effect. This implies that the effect of GST on consumer wellbeing might be realised over time.

Gowtham and Chitra (2021) analyzed the effects of GST on the FMCG sector and how it is related to the purchasing power of consumers. The results found that GST affects positively and significantly the spending power of the consumers. But as far as the industry was concerned, a negative relation was observed between GST and market size and FDI inflows.

Jain (2020) analysed the impact of GST on various sectors and identified positive impact on FMCG, real estate and others while negative impact on banking and textile depending on the type of industry.

Dey, S. K. (2021), examined the impact of Goods and Services Tax (GST) on the indirect tax revenue of India, with special reference to the state of Odisha. The key findings of the analysis suggest that GST has shown an increasing trend in indirect tax revenue for India.

Sharma and Sharma (2023) explored the effect of GST on the Indian economy by discussing its effects on different sectors, taxation, inflation, and EODB. In their findings, GST made the tax system simpler, removed cascading taxes, broadened the tax base, and facilitated compliance. Nonetheless, such obstacles as compliance burden among small-scale businesses and short-term economic shocks were also witnessed.

Malhotra, G., and Mishra, S. (2019), examined the effect of economic growth indicators on the net profits of the logistics sector in India. The key findings of the data analysis suggest that tax expenses and inflation rate have a significant negative impact on the profits of the logistics sector, while the GDP of the services sector has a significant positive impact.

Thakur and Devi (2025) have studied the question of whether GST Reforms 2025 (GST 2.0) contributes to the simplification of the indirect tax system or the complexity of this tax system. They discovered that GST 2025 made the tax structure easier by simplifying it by consolidating slabs and eliminating cess, whereby the mood of the stakeholders was generally positive. Nevertheless, challenges that include the problem of ambiguity in classification, delays in money transfer through refunds, and the intrusion of compliance on MSMEs continue to exist.

Venkataramanaiah and Abraham (2020) investigated the impact of the Goods and Services Tax (GST) on the performance of the hospitality and tourism sector in India. The key findings of the data analysis suggest that while most variables showed steady growth in absolute terms, the year-on-year percentage change declined in the year GST was implemented (2017), indicating a short-term negative impact on the sector's performance.

RESEARCH GAP

The available literature has mostly worked on the implementation of GST initially, citing it as an event that is static, one-time. This is a crucial void in assuming that GST is a dynamic concept. Over 50 times the GST Council has met since 2017, and there have been a great number of revisions of the rate. These continuous changes have never been actively investigated in their cumulative effect on consumer expenditure. In addition, there are no examinations of the differential effects between income groups and product categories among repeated revisionary cycles. This paper fills this gap by offering an empirical literature on the process of GST rate reviews and the effects they have gone through concerning the consumer spending behaviour.

OBJECTIVES OF THE STUDY

1. To examine the effects of changes in the rate of Goods and Services Tax (GST) on the consumer spending behavior in India.
2. To investigate the effects of changes in the level of GST rates (Increasing and reducing) on the purchasing behavior of consumers.

RESEARCH METHODOLOGY

The research design of the study is a descriptive and analytical research design that incorporates both primary and secondary data collections.

Primary Data The primary data was also obtained through direct use of consumers in a structured questionnaire specifically meant to be used in this research. The questionnaires were structured into three parts, namely demographic information (age, sex, level of income, career), awareness and perception of the revisions in the GST rates, and how consumer spending patterns changed. The level to which the revision of the GST rates has an impact on consumer purchasing behavior about varying categories was measured using the five-point Likert scale.

The survey was administered using the online resource, Google Forms. The respondents were chosen through the convenience sampling approach based on access and interest in responding. The sample used in the study was of 157 consumers, and this is appropriate to comprehend the consumer general trends.

Secondary Data The secondary data used consisted of credible and legitimate sources with the objective of supporting the main findings and giving background information. The key sources were reports that were issued by the Reserve Bank of India (RBI), publications issued by the Ministry of Finance (India), GST council reports, official notifications, research journals, articles, and government websites.

Variables of the Study

Variable Type	Variable Name
Independent Variable	GST Rate Revisions (increase or decrease in tax rates)
Dependent Variable	Consumer Spending Patterns
Demographic Variables	Age, Gender, Income level, Occupation

Hypotheses

According to the aims of the research and available literature, the following hypotheses were developed

H0 (Null Hypothesis) Revision of the GST rates do not lead to any substantial effect on the consumer spending behavior in India.

H1 (Alternative Hypothesis) Consumer spending in India is very much affected by the GST rate revision.

Statistical Methods

The research used both descriptive and inferential statistics in the analysis of the data

Descriptive Statistics This is applied when demographic data, awareness, and spending behavior are characterized in terms of frequency data, percentages, means, and standard deviations.

Chi-Square Test of Independence This test is used to ascertain the significance of the association between the categorical variables, like income group and spending impact perception, and awareness and spending behavior.

One-Way ANOVA It is designed to compare the impact of mean spending according to various groups of income and various products.

Pearson Correlation Analysis It is an analysis that is utilized to analyze the association between the knowledge of consumers on the adjustment of GST rates and their response.

All the statistical analyses were done through Microsoft Excel and SPSS. All the tests were carried out in 95% confidence level ($\alpha = 0.05$). A p-value that was below 0.05 showed that the null hypothesis was rejected, and this was a statistically significant relationship between the variables.

3. Data Analysis

Table 1 Demographic Profile of Respondents

Demographic Variable	Category	Frequency	Percentage
Age Group	18-30 years	55	35.00%

	31-45 years	39	24.80%
	45-60 years	24	15.30%
	60+ years	8	5.10%
Gender	Male	74	47.10%
	Female	83	52.90%
Income Group	Low (\leq ₹25,000)	30	19.10%
	Lower-Middle (₹25,001-₹50,000)	35	22.30%
	Middle (₹50,001-₹75,000)	40	25.50%
	Upper-Middle (₹75,001-₹1,00,000)	32	20.40%
	High (Above ₹1,00,000)	20	12.70%
Occupation	Salaried Employee	66	42.00%
	Business Owner	28	17.80%
	Professional	24	15.30%
	Student	19	12.10%
	Homemaker	12	7.60%
	Retired	8	5.10%
Area	Urban	102	65.00%
	Semi-Urban	35	22.30%
	Rural	20	12.70%

The biggest rate of respondents was seen in the 18-30 years group (35.0%), and this implies that young workers and people in the early stages of their careers constituted the bulk of the sample. Gender represented quite a balance, with female respondents (52.9) being a bit more than the male respondents (47.1%). A significant portion of respondents fell in the middle-income (₹50,001-₹75,000) category (25.5%), indicating a sample size of mostly financially stable people with disposable income.

Table 2 Awareness of GST Rate Revisions

Response	Frequency	Percentage
Aware	138	87.90%
Not Aware	19	12.10%
Total	157	100%

A great majority of the respondents (87.9) expressed that they were aware that the GST rates have been changed several times since 2017. This sensitivity indicates that the changes in the tax policy are a relevant matter among consumers.

Table 3 Price Change Noticeability

Response	Frequency	Percentage
Always	44	28.00%
Often	55	35.00%
Sometimes	35	22.30%

Rarely	16	10.20%
Never	7	4.50%
Total	157	100%

Mean Score 3.71 | Standard Deviation 1.12

Why changes in prices take place when the GST changes were observed; a big percentage of respondents (63.0) noted that very often they noticed changes, or that they always noticed them. This is a high sensitivity, which means that the consumers keep a thorough observation of price changes.

Table 4 GST Rate Revisions Influence on Monthly Spending

Response	Frequency	Percentage
Strongly Disagree	22	14.00%
Disagree	30	19.10%
Neutral	42	26.80%
Agree	40	25.50%
Strongly Agree	23	14.60%
Total	157	100%

Mean Score 3.21 | Standard Deviation 1.18

The average result was 3.21, which means that this statement was also rated at the moderate level. About 40.1% of the respondents said that they are affected by changes in the GST rate and agreed or strongly in agreement that the difference does affect their monthly spending.

Table 5 Spending Increase After GST Rate Cuts

Response	Frequency	Percentage
Strongly Disagree	20	12.70%
Disagree	30	19.10%
Neutral	35	22.30%
Agree	37	23.60%
Strongly Agree	35	22.30%
Total	157	100%

Mean Score 3.22 | Standard Deviation 1.21

45.9 percent of the respondents spent more on the reduction of GST rates, which confirms the directional hypothesis that a reduction in rates has a positive effect on consumption.

Table 6 Spending Reduction After GST Rate Increases

Response	Frequency	Percentage
Strongly Disagree	28	17.80%
Disagree	32	20.40%
Neutral	33	21.00%
Agree	33	21.00%
Strongly Agree	31	19.70%
Total	157	100%

Mean Score 3.06 | Standard Deviation 1.24

It was observed that approximately 40.7 percent of the respondents decreased their expenditure when the GST rates were increased in accordance with the behavioral economics principles on loss aversion.

Table 7 Cross-Tabulation of Income Group and Spending Impact Perception

Income Group	Disagree (1-2)	Neutral (3)
Low (\leq ₹25,000)	18	6
Lower-Middle (₹25,001-₹50,000)	14	10
Middle (₹50,001-₹75,000)	10	12
Upper-Middle (₹75,001-₹1,00,000)	6	8
High (Above ₹1,00,000)	4	6
Total	52	42

Table 8 Chi-Square Test Results

Test	Value	df	p-value
Pearson Chi-Square	19.874	8	0.011
N of Valid Cases	157		

A Chi-square test of independence was performed to investigate the association between income group and the perceived impact of GST rate revisions on monthly spending. The results show a significant association between the two variables, $\chi^2(8) = 19.874$, $p = 0.011$. The p-value is below 0.05, and hence the null hypothesis is rejected. This shows that the level of income plays a major role in generating consumer perception on the effect of an increase in GST.

Table 9 Cross-Tabulation of Awareness and Spending Change Behavior

Awareness Level	Spending Decreased	No Change	Spending Increased
Aware of GST Revisions	52	28	45
Not Aware	8	12	12
Total	60	40	57

Table 10 Chi-Square Test Results

Test	Value	df	p-value
Pearson Chi-Square	7.892	2	0.019
N of Valid Cases	157		

A chi-square test of independence was conducted to determine the association between consumer awareness of a revision in the GST rates and their spending pattern. According to the results, there is a strong relationship between the two variables, $\chi^2(2) = 7.892$, $p = 0.019$. It means that conscious consumers tend to change their expenditure patterns more than the uncertain ones as the GST rate is altered.

Table 11 Descriptive Statistics for Spending Impact by Income Group

Income Group	N	Mean Impact	Standard Deviation
Low (\leq ₹25,000)	30	2.87	1.14
Lower-Middle	35	3.14	1.06
Middle	40	3.58	1.08
Upper-Middle	32	3.88	1.04
High (Above ₹1,00,000)	20	4.05	0.99
Total	157	3.48	1.12

Table 12 One-Way ANOVA Results

Source of Variation	Sum of Squares	df	Mean Square
Between Groups	42.567	4	10.642
Within Groups	163.433	152	1.075
Total	206	156	

One-Way ANOVA was used to differentiate the mean score of the five income groups in terms of the impact of spending on the study. The findings show that there is a statistically significant difference in income groups, $F(4, 152) = 9.874$, $p < 0.001$. The descriptive statistics show a clear increasing trend as income increases, the perceived impact of GST revisions also increases.

Table 13 Correlation Analysis Results

Variables	Awareness Level	Behavioral Response
Awareness Level	1	0.623**
Behavioral Response	0.623**	1

Correlation is significant at the 0.01 level ($p < 0.001$)

A Pearson correlation statistical analysis was undertaken to determine the relationship that exists between consumer awareness of GST rate revisions and behavioral response. The findings indicate that the correlation between the two variables is moderately strongly positive, and $r = 0.623$, $p < 0.001$. This shows that consumers who are better informed will tend to change their expenditure patterns.

Table 14 Summary of Hypothesis Tests

Test	Test Statistic	p-value	Result
Income vs. Spending Impact (Chi-Square)	$\chi^2(8) = 19.874$	0.011	Significant - Reject H_0
Awareness vs. Spending (Chi-Square)	$\chi^2(2) = 7.892$	0.019	Significant - Reject H_0
Impact by Income Group (ANOVA)	$F(4,152) = 9.874$	<0.001	Significant - Reject H_0

Awareness vs. Behavior (Correlation)	$r = 0.623$	<0.001	Significant - Reject H_0
---	-------------	----------	-------------------------------

4. FINDINGS

- **Large Consumer Awareness** At least three-quarters of the respondents (87.9%) reported knowing GST rates have been changed more than once since 2017, and most respondents (63.0%) reported that they would often notice the price change when GST rates are changed.
- **Significant Effect on Spending** The research shows that changes in the GST rates affect consumer spending patterns to a small extent. About 40.1 percent of the respondents accepted that the GST rate has an impact on their monthly spending.
- **Asymmetric Response to Behavior Change** Consumers respond more to a rate increase by cutting spending (40.7) than to a rate decrease (45.9) by increasing spending, which has been associated with the loss aversion theory.
- **Income-Based Variation** One-Way ANOVA indicates that there is significant variance in the effect of spending variation between high-income consumers and lower-income consumers ($F = 9.874$, $p < 0.001$), with the higher-income consumers posting a higher impact ($M = 4.05$) than the lower-income consumers ($M = 2.87$).
- **Sensitivity to GST rate changes** FMCG products are the most sensitive ($M = 3.20$) to changes in the GST rates, and essential goods are the least sensitive ($M = 2.93$).
- **Awareness-Behavior** There is a strong positive relationship ($r = 0.623$, $p = 0.001$) between consumer awareness and the responsiveness of changing their spending as informed consumers better influence their spending change.
- **Skepticism on Benefit Pass-Through** A significant proportion of respondents (42.0%) suspect that the benefits of a reduction in the GST rate are seldom or never passed on to the recipients by businesses, which also may reduce the desired stimulatory effect of the rate cuts.
- **Effects on Savings** GST rate changes were found to have less impact on the savings of the respondents, with only 30.6% of the people feeling that the change in GST rate influences their savings, implying that the savings behavior is not very sensitive to changes in tax rates as compared to their day-to-day consumption.

5. CONCLUSION

The current research paper has discussed how changes in the Goods and Services Tax (GST) rates have affected consumer spending habits in India. According to the analysis of primary data with 157 consumers and secondary information underpinnings, one can state that the revisions in GST rates have a considerable impact on changing consumer behavior.

The results reveal that consumers are very price sensitive to changes that arise due to the revision of the GST rates. GST increase increases the prices of goods and services and thus decreases consumer spending, especially in the expenditure of non-essential goods and luxury goods. Conversely, a reduction in the GST rates will spur consumption by making goods affordable, but the effect is not as significant as compared to the effect of raising prices. This relative reaction signifies the significance of loss aversion when making a consumer choice.

The analysis also points out that the impact of changes in GST rates, depending on various product lines and levels of income, is not similar. Goods that are of low categories, like essential products, are relatively less sensitive, whereas discretionary items are highly sensitive. The changes in taxes will affect the lower-income groups more because of their low purchasing power, and comparatively less the higher-income groups. This observation highlights why it is important that policymakers take into account the distributional implications of changes in tax rates.

The statistical test proves the hypothesis that the changes in GST rate create a great influence on the consumer spending trends in India. The associations that were found to be significant based on the Chi-Square tests are between income group and spending influence ($\chi^2 = 19.874$, $p = 0.011$) and between awareness and spending behavior ($\chi^2 = 7.892$, $p = 0.019$). The One-Way ANOVA had significant differences by the income groups ($F = 9.874$, $p < 0.001$), and the Pearson correlation has a strong positive association between the awareness and the behavioral response ($r = 0.623$, $p < 0.001$). All the tests indicate that the null hypothesis is rejected, and the alternative hypothesis is accepted.

Thus, policymakers should make sure that the changes in GST rates are stable and well thought out so that consumers will be assured, and they will assist in stable economic activity. Regular adjustment of the rates can cause confusion to the consumers, thus causing them to spend cautiously. Moreover, consumers can be made to make better decisions in relation to any changes in the tax policies by improving consumer awareness via good communication and financial literacy initiatives.

REFERENCES

1. Dey, S. K. (2021), Impact of Goods and Services Tax on Indirect Tax Revenue of India: With Special Reference to Odisha State, *Universal Journal of Accounting and Finance*, 9(3): 431-441.
2. Gowtham Ramkumar, M., & Chitra, S. (2021). Impact of Goods and Services Tax on the FMCG sector. *Turkish Journal of Computer and Mathematics Education*, 12(11), 158–164.
3. Jain, E. (2020). Impact of Goods and Services Tax on the Indian economy. *International Journal of Research in Finance and Management*, 7(2), 180–185.
4. Kanaujiya, R., & Singh, H. S. (2024). GST effect on consumer behaviour and spending patterns An empirical study. *International Journal of Research in Finance and Management*, 7(2), 180–185.
5. Malhotra, G., and Mishra, S. (2019), Effect of Economic Growth on the Logistics Sector in India, *Theoretical Economics Letters*, 9, 210-222. <https://doi.org/10.4236/tel.2019.91016>.
6. Ramkumar, G. (2018). Consumer perceptions towards Goods and Services Tax implementation An economic approach. *ELK Asia Pacific Journal of Marketing and Retail Management*, 9(2).
7. Sharma, Y., & Sharma, P. (2023). Impact of Goods and Services Tax (GST) on the Indian economy. *National Journal of Commerce and Management*, 10(1), 23–38.
- Thakur, R., & Devi, P. (2025). GST reforms 2025 and the new tax regime in India Towards simplified taxation or added complexity. *Journal of Economics and Management Trade*, 31(12), 94–113.

8. Thakur, T., & Devi, A. D. (2025). GST Reforms 2025 and The New Tax Regime in India: Towards Simplified Taxation or Added Complexity. *Journal of Economics, Management and Trade*, 31(12), 94–113.
<https://doi.org/10.9734/jemt/2025/v31i121375>
9. Venkataramanaiah, & Abraham, S. (2020). Impact of the GST on the development of the hospitality and tourism sector in India. *International Journal of Management, Business and Economic Research*, 1(1), 14–19.